HANDELSBANKEN

PROPERTY INVESTOR SURVEY - VOLUME 3

Property Investor report

May 2024

Handelsbanken

Introduction

Investors showing resilience in an uncertain world

Our latest Property Investor Report arrives amid a significant period of political and economic uncertainty both domestically and internationally. From the forthcoming general election, to the timing and number of interest rate cuts, and from the cost-of-living crisis to geopolitical shocks, the economic environment is particularly complex at present.

However, property investors in the residential and commercial property market remain both resilient and positive about the year ahead – and plan to expand their portfolios by both size and value across all sectors, notably residential housing, flats and commercial offices. Further and notably, we also find property investors highly supportive of legislation to change the minimum energy performance certificate (EPC) standard to the top A rating.

Otherwise, our research with 200 property investors across the UK reveals a determination to follow a well-managed strategy when investing in property, despite the headwinds. More than half (51%) say that the general election is having no impact on their outlook for the sector, while a similar amount (52%) say that potential interest rate cuts are making them more positive about the future.

The findings suggest that there is an overall view that the economy has begun to recover, and that external events will have limited effects on that process. A minority of respondents (12%) said that geopolitical uncertainty will have a negative impact on their outlook, for example.

This research from Handelsbanken showcases a sector that is positive about the future, remaining cautiously optimistic while seizing opportunities and changing their focus on sectors and regions in line with economic, political and societal trends.

Methodology and respondent demographic

Handelsbanken commissioned research in March 2024 through independent research company Pure Profile among a panel of 200 property investors across the UK. They included 17 respondents in Wales, the East Midlands, East of England, London, North East & Cumbria, North West, Scotland, South East and the South West. There were 16 respondents from Northern Ireland, Yorkshire & The Humber and 15 from the West Midlands.

The sample was broken down with 35 owning outright or with a mortgage between five and 15 properties; 35 owning outright or with a mortgage between 15 and 25; 35 owning outright or with a mortgage between 25 and 50; and 95 owning outright or with a mortgage more than 50 properties. Around 28.5% classified their business as real estate investment, while 33.5% classified their business as property management, and 38% classified their business as landlords (residential or commercial).

More than half (51.5%) of the total sample owned student lettings or HMOs as part of their portfolio, while 50% owned non-student lettings or HMOs; 26% owned static park homes; 58.5% owned offices; 51.5% owned retail properties; 45% owned industrial properties; 12% owned leisure properties and 8.5% owned healthcare properties including holiday parks and hospitality.

The average portfolio comprised 35 properties, with the mean individual property value across all portfolios standing at £263,900. Key highlights from this year's research are set out below and include comparisons to last year's study where appropriate.

Section 1

Market outlook and sentiment

Property investors remain positive towards the UK real estate market.

Despite the uncertainties of operating in an election year, with some potentially big changes on the horizon, property investors remain positive towards the UK real estate market as an asset class.

More than four-in-10 (44%) expect demand for commercial property to increase significantly over the next 12 months, while 38% expect demand for it to increase slightly. Looking at residential property, 19.5% anticipate demand to grow significantly over the next 12 months, while over half (57.5%) predict a modest uptick.

More than four-in-10
44% expect demand for commercial property to increase significantly over the next 12 months.

How do you expect demand for the following property types to change over the next 12 months?

	Residential	Commercial
It will increase significantly	19.5%	44%
It will increase slightly	57.5%	38%
It will remain the same	21%	15.5%
It will decrease	2%	2%

Source: Handelsbanken property investor market research, March 2024. Figures subject to rounding

Around a third (31%) believe the value of their portfolio will grow by more than 20% in the next 12 months, while 50% expect a slight increase of around 5%. Almost a fifth (18.5%) think the value will remain broadly the same, and just 0.5% expect a slight decrease (-5%). In Wales, 59% of respondents expect to see a large upswing, the highest across the UK.

Despite the optimistic sentiment, this year's findings show an 11% fall in confidence compared to last year on property values, down from 92% to 81%, with 10% more investors predicting they will remain broadly flat this year (18.5%) compared to 8% in 2023.

That said, the majority of property investors are committed to growing their portfolio over the coming 12 months; nearly two thirds (62.5%) plan to buy more properties, while around a quarter (27.5%) will maintain the status quo. Just 1.5% plan to trim their portfolio, while 8.5% say they will exit the market completely.

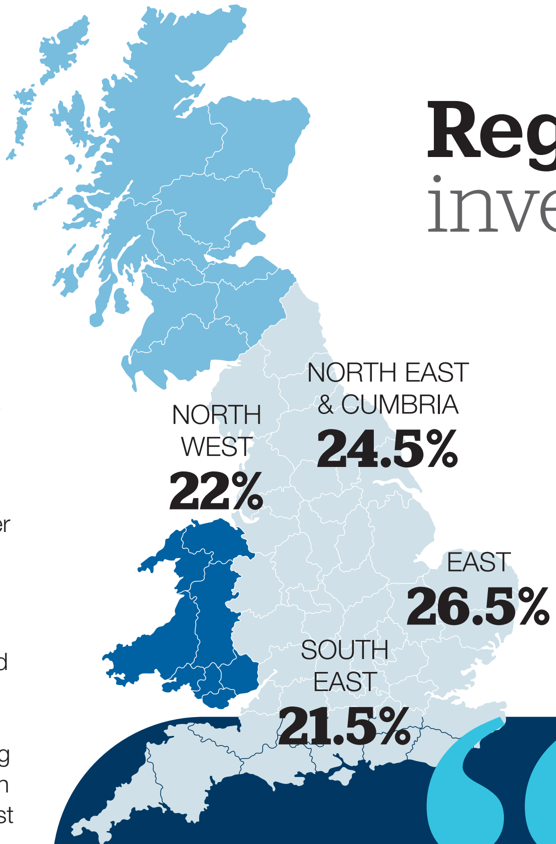
How do you plan to shape your portfolio over the next 12 months?

On a regional level, the research reveals a broad spread in sentiment and some major swings compared to last year. The East of England is seen as the most attractive region for property investors over the next 12 months **(26.5%)**, closely followed by North East & Cumbria **(24.5%)**, North West **(22%)** and South East **(21.5%)**, with respondents appearing to focus on those areas with higher yield characteristics, rather than those with historically strong demand.

One of the biggest differences is sentiment towards London. Last year, the UK capital led the way as an investment hotspot, backed by 27% of respondents, while this year, that figure has dropped to 21% – on level-pegging with the East Midlands. Support for the South East has also fallen this year, compared to last when it scored 26%.

The least attractive regions for property investors are Wales (11.5%), the South West of England, and Yorkshire & The Humber (both 12.5%). The appeal of the former is likely affected by an extra layer of red tape created by the Renting Homes Act (Wales) 2016 which has gradually bedded-in since being implemented in December 2022. Last year, the least attractive regions were Yorkshire and The Humber and West Midlands (both 9%).

Regional investment



As well as other advantages and opportunities, parts of the East of England region are particularly attractive from a yield perspective, all of which is helping this part of the country to have one of the fastest growing populations and economies in the UK."

Andy McCabe
District Head, Handelsbanken East District

Sector focus

Which sectors do you think will be most attractive for property investors over the next 12 months?

63%
Residential (flats)

up
10%
on 2023

62%
Commercial offices

up
4%
on 2023

61.5%
Residential (housing)

up
15.5%
on 2023

The three most in-demand sectors among property investors over the next 12 months are residential flats (63%), commercial offices (62%) - our branch colleagues feel this is perhaps in order to repurpose these properties or capitalise on top quality assets in prime locations - and residential houses (61.5%). Support for these sectors has risen dramatically over the last year, with residential flats up 10% (53%), commercial offices up 4% (58%) and residential housing up 15.5% (46%) compared with our 2023 survey.

At the other end of the spectrum, the three lowest scoring sectors this year are commercial retail (50.5%), student housing (49.5%) and residential park homes (32%). All three sectors occupied last year's bottom places, indicating they continue to remain out of favour compared to other parts of the market.

Our customers who invest in commercial property are actively looking for opportunities. Investors with large residential portfolios are also active, although private landlords with small portfolios are more likely to be selling property and investing in other assets, which is mainly due to evolving regulations and the tax regime.

“The adjustments to capital valuations, often masked by inflation, as well as increases to rents, have resulted in property once again delivering a premium over gilt yields and opened up the potential for attractive opportunities as the economic recovery progresses.”

James Sproule
UK Chief Economist

Section 2

Challenges and risks

Faced with the uncertainties of an election year and potential movements in interest rates, property investors are quite rightly considering their portfolio positions.

Despite this, the overall mood is confident, with just over six-in-10 **(62.5%) planning to increase the size of their portfolio over the next 12 months**, a marginally higher proportion than those interviewed for last year's report (59%). A smaller number said they would **decrease or dispose of all of their properties in the year ahead – 10%** compared to 14% in 2023.

Among those decreasing or disposing of all their properties, 45% say they need to liquidate assets to invest in a different sector, while 40% are driven due to financial pressures, and 35% are bearish about the property market. Almost a third (30%) cannot afford to upgrade because of regulation, and a further 30% have held their properties for the length of time originally set out in their property strategy.

62.5%

10%

The biggest change in sentiment this year over last is demonstrated by the fact that two thirds (66%) of respondents in our 2023 survey who were decreasing or disposing of properties were bearish about the property market, almost double the 2024 figure.

Macro factors that might be expected to have a negative impact on sentiment do not seem to be particularly material for most property investors. Interestingly, general election uncertainty is having no impact on the majority (51%), and a further 31% say it is making them more positive.

51% say prospect of a general election is having **no impact on their outlook** for the sector.

How do you expect the following market factors to affect your outlook for the property sector?

	More positive	No impact	More negative	Don't know
General election	31.5%	51.5%	8.5%	8.5%
Interest rates cut	52%	30%	9%	9%
Recession	32%	44%	19.5%	4.5%
Geopolitical uncertainty	40%	44%	12%	4%
Persisting cost of living crisis	30.5%	50%	17%	2.5%

Source: Handelsbanken property investor market research, March 2024. Figures subject to rounding

Our discussions with customers support the view that there is cautious optimism around the property market, and it is noticeable that activity amongst existing investors is picking up. It may be that many have decided the economy has potentially reached the top of the interest rate cycle and that the time is right to engage in new deals.

Most respondents appear unaffected by potential uncertainty and don't believe that a change in the party in government, if that happens, will lead to significant changes in the market.

Tenant stress

Are you experiencing any of the following tenant stresses within your portfolio?

Our 2024 survey also reveals tentative improvements in the stress factors affecting tenants, which have been driven in recent times by the cost of living and energy crisis.

Just over half (53%) of respondents are seeing requests for rental deferments/contract renegotiation from tenants, down 7% compared to last year (60%). Meanwhile, a third (34%) is experiencing overdue or late payments from tenants compared to 41% in 2023.

However, 60% are seeing an increase in voids, up from 54% – perhaps reflective of increased demand among tenants for quality and EPC ratings, which the research also revealed.

Section 3

EPC ratings and the drive for greater energy efficiency

Overall, property investors support upgrading their buildings to make them more energy efficient

It's fair to say that in the wider property sector there was a mixed reaction to the news that the government had scrapped proposed upgrades to the existing energy efficiency targets for housing in England. While some industry associations and investors welcomed the fact that they would save money by no longer having to bring properties up to an EPC C rating by 2028, others criticised the move because they had already invested in expensive upgrades.

According to our study, the government's decision has had a significant impact on investors. A quarter (24.5%) said that they have cut the amount they plan to invest to improve EPC ratings as a direct result of the government's decision. A further fifth (20.5%) have abandoned their plans altogether.

Of the remainder, 43.5% are continuing with their investment plans, while 7.5% were not planning any investment to begin with, and 3% were not aware of the government's decision.

What effect has the government's decision to scrap plans making property investors bring properties up to EPC C rating had?

	All respondents
Cut the amount planned to invest	24.5%
Abandoned plans for investment	20.5%
Continuing with original plans	43.5%
Had no plans to invest	7.5%
Were not aware of the government's decision	3%

Source: Handelsbanken property investor market research, March 2024. Figures subject to rounding

Although 45% of respondents reported that they would either cut or abandon plans for investment in energy efficient measures, the average value of annual budgets earmarked for such investments across portfolios rose by 20.5% from the £106,222 reported in our 2023 report to around £128,000 this year, possibly reflecting the rising cost of labour and materials.

Overall, property investors support upgrading their buildings to make them more energy efficient; 72% would support a minimum EPC A rating – this is currently the highest rating; 53.5% would back a minimum EPC B rating, while 83.5% of investors would welcome legislation raising the EPC rating to C for commercial and residential properties.

While the first figure appears surprisingly high, this appetite may well be driven by the longer lease lengths seen by commercial properties with an EPC A rating, as well as the opportunities to benefit from sustainable loans.

Budget
for energy efficiency measures

2023
£106,222

2024
£128,000

"With respect to sustainability, there seems to be more of a focus from investors on developing or acquiring properties with better EPC ratings, based on the green financing initiatives offered by banks discounting loan margins."

Jake Ellson
Branch Manager, Hampstead

Sustainability features

Property investors' views on reaching EPC C may be driven by growing expectations from tenants facing high energy costs. Almost all (95.5%) say tenants have asked for some form of sustainable property feature in the past 12 months.

Three quarters (73%) of respondents say tenants have asked for either heat pumps, solar generation or EV chargers. This rises to 88% in the North East & Cumbria. Six-in-10 (58%) have requested a higher EPC rating at C, and in London this figure rises to 88%.

Property investors are continuing to stay ahead of the curve in terms of energy efficiency – despite the UK government postponing the planned introduction of higher sustainable energy standards in England.

"We have supported many customers over the last 18 months with the addition of solar panels, LED lighting and EV chargers in particular, which have made significant improvements to the energy rating of the properties."

Lisa Robey
Branch Manager, Milton Keynes

Section 4
Conclusion

This year's study shows property investors to be in a positive frame of mind about the year ahead, with the majority planning to grow their portfolios despite feeling less optimistic than last year about valuation rises.

What's more, fewer respondents expect to make disposals due to financial challenges, suggesting they think the worst is behind us.

On a regional level, we're seeing a significant shift in sentiment from the traditional economic heartlands of London and the South East to areas such as East of England and the North East, which may benefit the most from a turn in the cycle.

While headlines over the coming months are likely to be dominated by the general election, interest rate cuts and the ongoing cost of living crisis, none of these factors appear to jeopardise investors' upbeat mindset. Downside risks appear to be outweighed by upside potential.

The picture emerging from our survey regarding growing levels of residential and commercial tenant demand for sustainable initiatives, resonates with what we are hearing from our property investor customers.

They recognise that the changes future-proof their investments to ensure compliance with both rising tenant expectations as well as most importantly government-enforced requirements, which our investors foresee coming back in to play.

We look forward to keeping a finger on the pulse of this core demographic so that we can continue to adapt and enhance our solutions according to their evolving needs.

"Sentiment appears more positive or unchanged, which should bring greater stability to the market as a whole."

Simon Bradley
Chief Credit Officer

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For information regarding sustainability at Handelsbanken, please see: handelsbanken.co.uk/en/about-us/sustainability

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